

BUSINESS & LABOREXHIBIT NO. 1
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Senate Bill 207

I am Loretta Miller. My husband and I own Green Meadow Auto Salvage here in the Helena valley. I am also the president of the Montana Automobile Dismantlers and Recyclers Association or MADRA. We have asked that Dave Lewis introduce this bill.

There are several reasons we have asked for this legislation. We want the rules to apply to everybody equally and we want to promote public safety.

Presently, most of the cars that are totaled in the state of Montana are sold through salvage auctions. There are presently 3 such auctions in the state, with 2 of them being operated by the same company. Insurance Auto Auctions or IAA operates an auction in Missoula. IAA sells about 100 cars every 3 weeks. The auctions are conducted simultaneously online and live. The other company is Co-part which operates the largest sale here in Helena, and one in Billings. They conduct sales exclusively online every 2 weeks. There are commonly 125 cars sold in Helena and not quite that many in Billings. Between the 5 auctions held statewide in Montana about 500 totaled vehicles are sold monthly or about 6000 annually. Both auctions require a registration fee to be allowed to participate in the auctions. But there are no standards set for participation beyond paying the fee. The general public is welcome to buy these badly damaged cars directly on line. The fee that they impose allows the buyers to attend any auction anywhere.

In Montana, most of us who run salvage yards or rebuild cars for sale must be licensed. We have to buy a salvage license or a used car dealer's license. To get a salvage license, we have to meet certain requirements including environmental standards. We are required to provide a storm water runoff plan, remove the mercury switches, contain the Freon, fence the cars from public view, provide the state with a quarterly report of all vehicles that we acquire, and keep an inventory system. Used car dealers must meet bonding requirements, insurance requirements, signage requirements and reporting requirements. Both groups also pay fees for the privilege of holding these licenses and conducting businesses in the state of Montana. However, other in state buyers, out of state buyers and out of country buyers can participate in these auctions without any obligations to meet any of the same state requirements.

I have provided you with copies of the actual auction sheets that Ron gets when he goes to Co-Part to look at the cars before an auction. He keeps track of where the vehicles go and how much they sell for. You can see from the far right column on these sheets where the vehicles are going. The 3rd sheet is a summary of the Helena Co-Part sales for most of the sales in 2007 and 2008. Approximately 40% of the cars go out of state and about 12% average leave the country.

We have requested this legislation so that everybody who buys salvage in the state must be licensed. The license will cost an upfront cost of \$500.00, but those of us who pay Montana state income tax will get a direct credit for that cost. Those of us who make our living in this state, it is a financial wash. However, the upfront expenditure is enough to make someone who only dabbles occasionally think about the venture he is about to start. The serious salvage buyers from out of state will not be bothered by this fee. There are out of state buyers who regularly buy more than 50 cars a year from our state. That calculates to about \$10 per car. The auction fees are much more expensive than that. The salvage buyers that are from long distances like El Salvador, Mexico, Russia, Lithuania are so determined to buy some of these pieces that another \$500.00 is just a minor irritation, even if they only buy 1 car a year.

I just want to provide you with an example of the fees that are paid by buyers on cars thru the salvage auctions. Last week we purchased a \$70.00 vehicle from Co-part. We paid the \$70.00 fee, a \$30 gate fee for getting the vehicle from behind their fence, a \$30 buyer's fee, and a \$35.00 internet fee. The total cost of that 70 vehicle was \$165.00. A vehicle purchased for \$1000.00 will cost the buyer another \$240 in various fees. A \$2500.00 vehicle will cost a total of \$2865. These are true examples from cars that we just purchased in the last couple of months. IAA has very similar charges.

We would like the state to have a registry of licensed buyers for consumer protection issues also. Presently, anyone who has paid the registration fee with one of the auction companies can bid on any piece of salvage. We must also include those people who buy salvage using somebody else's license. An assumption must be made that if the buyer is not a salvage yard; the car is going to be rebuilt. Montana only brands titles for cars 5 years and newer. It also does not do any safety inspections. Most of the people that make their living rebuilding cars are doing a good job. They are making sure that the vehicles are thoroughly and properly repaired. But some of these cars are being repaired by unskilled people without the proper equipment. These people put poorly repaired cars back on the roads in Montana or any of the states where these cars end up. We have all heard the horror stories about somebody's teenage daughter that was killed in a car wreck because the repair was inadequately done. If the state maintains a registry of licensed buyers, the repairer can be made responsible for that tragedy.

Cars that are rebuilt by some of the back yard repairers are also sold under the table. The seller does not pay any income tax on the profits he makes.

Another advantage to have a registering process is time. The registration process in Montana will not be instantaneous. Let's imagine that a 2004 Suburban has been stolen in Phoenix. There is a feature on both company's auction sites, that allow a bidder to look for a specific vehicle throughout its complete inventory of salvage vehicles nationwide. In his virtual search, he finds

a Suburban that is very similar to the stolen one here in Montana. The Montana sale is going to be on Wednesday, but he is not yet registered as a salvage buyer in Montana. He will go looking for the vehicle with a good title someplace else. We had a man from North Dakota call us to buy a semi trailer at one of the auctions last summer. He said he would pay us to buy the trailer and send him the title. He didn't care what we did with the salvage. We gave his name and number to Dean Roberts and it was investigated. I expect that man wished he hadn't made that call. Montana is a favorite spot of the title buyers because we only brand titles for cars 5 years and newer. Presently with the 2009 model year out, only cars 2005 and newer are branded.

This bill will not generate very much income for the general fund, but every bit helps. We have not seen the fiscal note yet, but there will be more registrations than they are credits.

Montana is not alone in setting up these requirements for the purchasers of salvage vehicles. Presently 12 states require a bid card for buying at the auctions. Utah is one of those states.

We have on purpose not asked to make this license restricted to somebody with a certain type of license. We understand that many of us in Montana have to do whatever it takes to make a living. Many people just enjoy repairing cars. Most of them do a reputable job. If they pay income tax in Montana, it costs nothing to have this license.

I am going to come back to the idea of the level playing field with the out of state buyers. We have 13 acres in our salvage yard, employ 9 people, and process about 300 cars and pickups a year. Our payroll for 2008 was over \$300,000.00. We paid property tax of about \$5000.00. We bought license plates for 4 vehicles. We paid worker's comp at 10%. We paid unemployment taxes. We provided health care and a retirement program for those people who work for us. We also buy nearly all of our goods and services right here in Helena. We have seen out of state buyers come into the auction yard with a vehicle that didn't have a license plate pulling a trailer also without plates loading salvage. Ron talked to the driver, who was taking the cars back to Idaho. We have seen a van load of Mexicans come in to the auction here in Helena, pay for the vehicles and head down I-15 headed to Mexico. Once in awhile they will have to come and get a radiator or a control arm so they can drive it back to Mexico. We have even seen them drive cars without windshields away. These people pay a few dollars in fuel taxes to the state.

You will soon hear from those who oppose this bill. The opposition is the big companies who run the auto auctions and some of the insurance companies. They are going to give you some reasons that this is a very bad idea. Please listen carefully to their arguments, but remember to follow the money. If Montana passes this bill, they will predict that the price of salvage will go down. If we

follow the money, we will find that it all goes out of state. Sure the insurance companies have adjusters, agents, and support staff in the state. Do we have any of their home offices or policy making offices here? IAA in Missoula employees 3 people, one manager and 2 staff people. Co-Part in Helena has either 5 or 6 employees-- again 1 manager, 2 or 3 office staff and 1 or 2 yard people. I expect that they have the same number of people in Billings. I am not sure if IAA in Missoula owns the land it sits on or if it leases it from the previous auction that was there. The Co-Part auction in Helena is on Airport land so it has a long term lease. I can not tell you about the property situation in Billings, but it too is on land that was previously run as a salvage auction. So we have 3 large corporations employing less than 20 people state wide. Between them, they utilize probably less than 100 acres. What benefit is Montana getting from these companies?

I listened to an interview that was done on CNBC with the CEO of Co-part on January 8, 2009. In that interview, he said that they had 145 auction sites in the United States, Canada, and Great Britain. They sold approximately 1million cars annually. He bragged that 300,000 to 400,000 of those vehicles were sold out of country. Those numbers make me wonder why they have 3 registered lobbyists and one of their high ranking officials, who is also a registered lobbyist, here in Montana where they only sell 5 to 6 thousand cars a year.

The auction companies also charge for selling the vehicles. I can't tell you what national users such as the insurance companies pay, but I can tell you the cost if you or I went down and consigned a vehicle to Co-part. The listing fee is \$125.00 plus 1% of the bid price if no minimum is set. If a minimum is set, the percentage goes to 2%. Remember that \$70 car I told you we bought. The seller of that car was a local individual. He paid \$125 listing fee and 1% which is just 70 cents to sell the car. Co-Part made \$125.70 plus our fees of \$95.00 to sell that car. This is really an extreme example, but it is in fact true. He actually didn't sell the car the first time it auctioned because he had a minimum so he had to pay other fees too for rerunning it. A more realistic example is the \$1000.00 car we bought. Co-part would get \$125 and \$10.00, which is 1 % for a total of \$135 from the seller and \$240.00 from the buyer. The CEO said that Co-part is a cash rich company. It is easy to see why when we follow the money.

Insurance companies are the final recipients of the dollars for the salvage vehicles. They will claim that they will lose money on the salvage. However we should look at the complete picture. If more of the salvage stays in Montana, repairs will cost less. We will have more of the parts that are needed to fix the types of vehicles that are driven and consequently wrecked in Montana. Local availability reduces the cost of shipping which has become a very large factor in parts procurement. With less expensive parts, repair costs are reduced, which is a plus for the insurance companies. Also when repair costs are reduced, fewer cars are totaled, another plus for the insurance companies. More repairs creates more jobs in the collision repair industry as another benefit to this state.

I have hit these guys pretty hard on the money issue. I want you to know that I understand that making money is the American way. I am also in business to make money. As a matter of fact it is good for me, when Co-Part makes money because we hold some of their stock in our pension plan. What this is really about is the buyers of salvage and not the sellers of salvage. We need to have the same costs for all the buyers of salvage no matter who they are or where they are from. They are taking a valuable product out of our state and not providing anything to the state in return. The out of state buyers have many advantages over our very own state wide buyers. The salvage buyers in the state of Montana support this bill.

I know that you will be bombarded by the lobbyists for these big guys in the next few days. But I am going to leave you and go back to work right here in Montana. I will be thinking about the outcome of this bill. I will be glad to talk to you anytime. My contact information is on one of the handouts. Bob Gilbert and Dave Lewis will be here too. Please remember that this bill is about a lot more than money to many of us small business people in Montana.

Please vote yes and give it a Do Pass Recommendation.